

STATE OF CALIFORNIA

Public Utilities Commission  
San Francisco

**M e m o r a n d u m**

**Date:** April 16, 2003

**To:** The Commission  
(Meeting of April 17, 2003)

**From:** Alan LoFaso  
Office of Governmental Affairs (OGA) — Sacramento

**Subject:** **AB 425 (Richman) Electric service: rates: interruptible programs**

As introduced February 14, 2003

**Recommendation:** Oppose unless amended.

**Summary:** This bill would continue until the end of 2008, optional interruptible programs for heavy industrial electrical customers at the same pricing incentives existing in 1996.

**Analysis:** This bill would extend to December 31, 2008, the commission's statutory obligation to direct each electrical corporation to continue the availability of optional interruptible or curtailable service to qualified heavy industrial customers.

This bill would prohibit the commission from altering pricing incentives from the levels in effect on June 10, 1996, before December 31, 2008.

Since the mid-1980's, electric utilities have operated interruptible programs, targeted mainly at industrial and large commercial customers. These traditional interruptible programs generally operate by compensating enrolled customers who reduce their energy usage during times when energy demand is high (typically the programs are triggered when the California Independent System Operator calls a Stage 2 alert). Compensation is provided through discounts to electricity rates, or on a pay-per-interruption basis. Discounts are approximately 15% off the customer's electricity rate.

Currently, PG&E, SCE and SDG&E have approximately 1,400 MWs of load subscribed to interruptible programs. The utilities have a combined spending cap of \$260 million annually for the programs. For 2002, the utilities spent a combined total of \$163 million.

The commission, in two separate decisions, extended these traditional interruptible programs beyond their statutory sunset date of March 31, 2002. Due to the energy crisis in 2000 and 2001, the CPUC determined that these programs would likely be needed through 2002, and thus extended them through December 31, 2002, (Decision (D.) 01-04-006). A year later, in D.02-04-060, the commission extended these programs again by authorizing them through the rate design phase of each utility's General Rate Case (GRC), which effectively extended the programs through 2003 or into early 2004 (varies among the utilities).

The commission also took action in D.01-04-006 and D.02-04-060 to create a number of new demand response programs, such as the Voluntary Demand Response Program, which includes a dynamic mechanism for determining a customer's load response, to supplement traditional interruptible programs in order to provide the utilities with additional means of reducing load when demand was high.

The commission, in an open rulemaking (R.) 02-06-001, is considering a number of additional demand reduction programs that would enable customers – including industrial customers – to modify their usage based upon market-based pricing signals. Unlike the traditional interruptible programs, which provide substantial continuous discounts to enrollees but are triggered only in emergency situations, price-responsive demand reduction seeks to reduce or shift demand during peak periods (which could lead to emergency conditions) when the cost of providing electricity is high.

Interruptible programs play a role in maintaining system reliability. However, the commission has noted the costs of maintaining these programs. In D.01-04-006, the commission stated that “[i]nterruptible programs are very expensive. We cannot reasonably extend expensive programs without limit.” Pointing to the need to re-evaluate the programs, the commission extended the sunset for a specific, limited duration to December 31, 2002, and reconsidered extensions and program redesign as necessary for any extension of interruptible programs beyond that date.

According to the Energy Division's February 8, 2001, Report on Interruptible Programs and Rotating Outages, these programs have cost ratepayers over \$2 billion between 1990 and 2001. AB 425 would prohibit the commission from modifying a key program design element by requiring that pricing incentives in effect in 1996 cannot be changed until after 2008. For example, the commission could not modify the discount rate if the current incentives are higher than the marginal cost of new supply, when ratepayer funds might be better invested in new generation or other demand reduction programs.

The extension of traditional interruptible programs, at current incentive levels, may also interfere with participation levels in potentially more cost-effective demand reduction programs operating today and under consideration in R.02-06-001. Current incentive levels for traditional interruptible programs may hinder migration from higher cost load reduction programs to lower cost programs, where rates can be adjusted to respond to the fluctuating cost of alternative approaches to meet demand. The commission should

retain the authority to adjust these incentive levels to provide for demand reduction in the most cost-effective manner.

**Amendment:** AB 425 fixes the customer pricing incentive for traditional interruptible programs at 1996 levels. This requirement may result in higher cost per kilowatt demand reduction than what might be available through alternative programs. The language should be amended to give the commission authority to adjust the customer incentive levels for interruptible programs.

On page 2, lines 15 through 18, strike the following text:

“In no event shall the level of the pricing incentive for interruptible or curtailable service be altered from the levels in effect on June 10, 1996, until December 31, 2008.”

And insert the following text in its place:

“The level of pricing incentive for interruptible or curtailable service shall be determined by the commission.”

**Legislative History:** Existing law requires the commission, in consultation with the Independent System Operator (ISO) and the Energy Commission (CEC), to adopt and implement industrial peak reduction programs that encourage customers to reduce electricity consumption during peak power periods (Public Utilities Code §379.5 (c)). This law also requires the commission to include the reasonable costs associated with the program in the utilities' distribution revenue requirements (Public Utilities Code §379.5).

Existing law requires the CPUC to direct electrical corporations to continue rate reduction efforts on behalf of heavy industrial customers to ensure those rates are competitive with rates in other states (PU Code §743.1 (b)). It further specifies that competitive rates shall not to be achieved through shifting the cost of competitive rates onto other customer classes.

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**Date:** April 16, 2003

**BILL LANGUAGE:**

BILL NUMBER: AB 425      INTRODUCED  
BILL TEXT

INTRODUCED BY    Assembly Member Richman

FEBRUARY 14, 2003

An act to amend Section 743.1 of the Public Utilities Code,  
relating to public utilities.

**LEGISLATIVE COUNSEL'S DIGEST**

AB 425, as introduced, Richman. Electric service: rates:  
interruptible programs.

(1) The Public Utilities Act authorizes the Public Utilities Commission to establish rates for public utilities regulated by the commission, including electrical corporations. The act requires electrical corporations to continue the availability to qualified heavy industrial customers, until March 31, 2002, of optional interruptible or curtailable service wherein the heavy industrial customer is charged a rate that reflects a pricing incentive for electing to operate under the optional or curtailable service.

This bill would instead require the commission to continue the availability to qualified heavy industrial customers of optional interruptible or curtailable service until December 31, 2008.

Because a violation of the act is a crime, this bill, by continuing to require electrical corporations to offer optional interruptible or curtailable service, would change the definition of a crime, thereby imposing a state-mandated local program.

(2) The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: yes.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 743.1 of the Public Utilities Code is amended to read:

743.1. (a) Electrical corporations shall continue the availability to qualified heavy industrial customers of optional interruptible or curtailable service. The effective rate for interruptible or curtailable service to qualifying customers shall reflect a pricing incentive for electing to operate under the interruptible or curtailable service option.

(b) The commission shall direct each public utility electrical corporation to continue its efforts to reduce the rates charged heavy industrial customers to a level competitive with other states, and to do so without shifting recovery of costs to other customer classes. The commission shall continue the availability of optional

interruptible or curtailable service at least until ~~March 31, 2002~~ *December 31, 2008* . In no event shall the level of the pricing incentive for interruptible or curtailable service be altered from the levels in effect on June 10, 1996, until ~~March 31, 2002~~ *December 31, 2008* .

SEC. 2. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.